April 6, 2009

Ms. Mary Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

RE: Comments on the Corporate Credit Union System Strategy

Dear Ms. Rupp:

On behalf of Eagle Community Credit Union, I appreciate the opportunity to comment on the NCUA Board's recent actions designed to stabilize the corporate credit union system. My comments will address the potential impact of the Board's actions on Eagle Community Credit Union, outline concerns regarding the actions implemented by the NCUA Board, and provide the requested input to the Advanced Notice of Proposed Rulemaking (ANPR) regarding the Corporate Credit Union System Strategy.

Potential Impact on Eagle Community Credit Union

Eagle Community Credit Union has significant concerns that the Board's strategy, as crafted and implemented to date, does not fully take into account the serious repercussions to the natural person credit union system and, as a result, to consumers and our credit union members. Specifically, we are deeply concerned about the actions the Board took on March 20, 2009 involving U.S. Central FCU and Western Corporate FCU (WesCorp) and the resulting assessment that the NCUSIF was impaired by 69%.

As a result of the 69% NCUSIF write off, the accompanying premium assessment to return the NCUSIF capitalization ratio to 1.30%, and the write-off of PIC and MCA shares at WesCorp, Eagle Community Credit Union will experience a Net Worth erosion of nearly 165 BP. Our ability to absorb loan losses generated by a challenging economic environment without running afoul of Prompt Corrective Action (PCA) requirements has been significantly weakened. Given the ravaging impact of the housing crisis fallout and skyrocketing unemployment on the credit union's financial performance, these write offs – in one fatal blow - eliminate nearly $3.2M of desperately needed capital. As a result, we are forced to consider several options – none of them are pleasant.

- <u>Reduction in Force</u>. During 2008 we eliminated 16 positions to reduce operating expenses in response to the losses the credit union was sustaining within our loan portfolio. Will we have to revisit this issue and toss even more loyal, dedicated employees into the unemployment lines?

- <u>Branch closings</u>. We closed one branch in 2008 to further shave operating expenses. We fear that we will be forced to consider further closures – inconveniencing our members and risking a decline in total membership.

- Long-term interest rate risk. We have experienced a severe depression in lending activity. This situation is exacerbated in that we no longer possess the capital necessary to allow us to sustain an elevated level of interest rate risk. We have had to curtail promotional activities and maintain non-competitive lending rates. Without lending activity the credit union is forced to deploy excess liquidity into an inhospitable investment environment – placing even further stress on interest margins.

- Manage Capital by Shrinking Assets. We have closed a branch, laid off employees, renegotiated contracts, and improved efficiencies to reduce operating expenses. We have repriced the Liability side of the Balance Sheet. Without loan volume, our efforts to reprice the Asset side of the Balance Sheet have not been productive. While there is some opportunity to further reduce operating expenses – if loan losses continue at their current pace we will be forced to drive away members to reduce deposits and enhance our net worth ratio. Actions such as this have a very long shelf life.

NCUA Board Actions

The lack of transparency provided by the NCUA Board to date has been a source of frustration and disappointment. Our credit union is a member of Western Corporate Federal Credit Union (WesCorp) and from our perspective; it appears that the NCUA was in possession of two dramatically different analyses - one provided by WesCorp and one performed by PIMCO. The NCUA Board chose to act upon the results of PIMCO's analysis. I suspect that if a Natural Person Credit Union (NPCU) had chosen one of two vastly different scenarios upon which to base a critical decision – regulators would have been keenly interested in the underlying assumptions of those two scenarios and the NPCU's justification of those assumptions. Through the NCUA Board's decision to devalue 100% of capital at WesCorp, impair the NCUSIF by 69%, and assess a premium of 0.30% - over $7,000,000,000 within the credit union system evaporated. Are the results of the PIMCO analysis justified? We don't know, and therein lies the source of our frustration.

In addition, assuming that the PIMCO results are indeed justified, the NCUA Board stated its intent to implement the lowest cost solution. We do not believe they were successful and – although it may well be academic at this point – we offer a potential alternative.

- Increase the NCUSIF by the amount of suspected future losses. Federally Insured Credit Unions (FICU) would fund the $5.9B increase through additional deposits into the fund. Preferably, these deposits would be made over a period of time as may be allowed under a recent NCUA Board proposal. Stretching out deposits in this manner would minimize liquidity concerns that may be associated with the immediate redeployment assets. Actual losses suffered by the NCUSIF would be recognized via impairments against FICU deposits - when and to the extent they occur. Allowing FICUs to carry the increased NCUSIF on their Balance Sheets as an asset and incur actual losses as they occur over time significantly softens the impact against net worth and dramatically strengthens a credit union's ability to emerge from the current economic environment with net worth relatively intact. It also has the potential to allow FICUs to realize losses in a future economic environment more conducive to positive earnings - further mitigating an adverse impact.

- Reinstate Member Ownership In WesCorp. We propose that the NCUA Board determine a regulatory or legislative solution to restore some or all of the member equity at WesCorp. Credit union members of the corporate deserve to have a degree of membership/ownership interest, and should be provided with NCUA's planned path for WesCorp's recovery and eventual return to full member ownership and control. AIG, BAC, Citigroup and others were technically insolvent and bailed out by the government, yet their shareholders were left with some, albeit significantly impaired, equity. We believe that a similar type of solution for credit unions should be explored. Such a move would go a long way towards restoring credit unions' sense of ownership, responsibility, and voice in WesCorp's future.

We applaud the NCUA for issuing guidance to examiners which includes instructions to recognize and allow for temporary reductions in ROA and net worth that result from credit union participation in the CU SIP program, and for recently taking action to amend its rule on the assessment of the federal credit union operating fee to exclude investments made under the CU SIP and CU HARP programs from the calculation of total assets. However, we believe it would provide more uniformity and reliability to formally make this redefinition via an amendment to the PCA regulation.

Eagle Community Credit Union commends and supports the NCUA Board for its work with Congress on the following issues:

- TARP or other government funds as a backstop to NCUSIF - Credit unions have been working with members of Congress to urge the Treasury to set aside at least $20 billion of TARP funds to be accessed should corporate or natural person credit union losses covered by the NCUSIF exceed $500 million. By allowing NCUA to reduce the current cost to credit unions of the corporate stabilization plan, this action would greatly mitigate the negative impact on credit unions' ROA and net worth and would bolster both credit union system confidence and public confidence.

- Corporate access to the Central Liquidity Facility (CLF) - As recommended in the January 2009 report from PricewaterhouseCoopers LLC to the NCUA Board, the CLF should be used to infuse liquidity and capital into the corporates. A change to the Federal Credit Union Act would expand authority of the CLF beyond its current authority to make liquidity loans only to natural person credit unions to permit direct investment in corporates.

- Replenishment of the NCUSIF over multiple years - FDIC is currently permitted five years to replenish their insurance fund. Section 2 of H.R. 786 (which makes permanent the $250,000 deposit insurance coverage for federally-insured financial institutions) would extend this period of time to eight years. In the interest of greater regulatory coordination within the financial services sector, we believe the replenishment period for credit unions should mirror that of banks, and are pursuing an amendment to this legislation to provide a similar restoration period for the NCUSIF.

- Risk-based Net Worth Standards – Efforts to modernize the PCA system may also include urging Congress to consider the removal of all of the PCA stipulations from the statute and leave it to regulatory determination, similar to the system under which the banking industry operates. This would provide for greater flexibility and responsiveness, especially during times of crisis. Credit unions, which have proven to be less risky financial intermediaries than banks and thrifts, should be subject to a PCA framework that provides, at minimum, as much flexibility as the FDIC, the OTS, and the OCC utilize for bank PCA standards.

    - Eagle Community Credit Union also encourages the NCUA Board to support changes to the definition of net worth that would allow government assistance in the form of loans to credit unions to be included in a credit unions net worth ratio. Such loans, in the form of "Section 208" assistance, were used effectively in the 1980's to help a number of credit unions through a severe economic crisis. These credit unions are now healthy, and are providing valuable services to hundreds of thousands of members. The loans that were used to help these credit unions were repaid, with interest.

- Credit union access to alternative capital – In order to effectively compete, to have a sufficient financial base to effectively serve their members, and to adjust to fluctuating economic conditions, credit unions must have the ability to build additional capital. Structured properly, giving credit unions this ability will provide an additional buffer to the NCUSIF, and make the fund stronger.

Evaluating the Structure of the Corporate Credit Union System

The Corporate Credit Union System is not broken. Eagle Community Credit Union fully concurs with the comments offered by the California Credit Union League as repeated below and asks that the NCUA Board guard against a "knee-jerk" reaction that may have detrimental long-term consequences.

"NCUA's ANPR seeks input from all stakeholders in the credit union industry regarding reforms to the regulatory and functional structure of the corporate system. It is a sweeping reconsideration of the current role corporate credit unions play in the credit union system, including their charters, powers, investment authority, capital requirements, fields of membership, risk management and governance. In the Leagues' view, the ANPR takes an unnecessarily broad approach in that it assumes the current corporate system is flawed in virtually every respect, and therefore requires a complete retooling. While we fully acknowledge the serious stress that has been placed on the corporate system due to a variety of factors—some possibly foreseeable and preventable, some not—we do not agree that the current situation warrants what would amount to a wholesale remaking of corporates as they are known and used today. Therefore, rather than addressing the multitude of detailed questions in the ANPR, we

would prefer to provide our views on the role of corporates in the credit union system, including our opinion of some of the key issues presented in the proposal.

The Role of Corporates

The Leagues believe that corporates serve a vital role for credit unions. By serving as a central point for credit union investment and payment system services and aggregation, they provide many services that typically would be economically available only to the largest financial institutions (e.g., share draft processing, wire transfers, ACH services, cash orders, etc.). By managing liquidity within the credit union industry, corporates are able to effectively and efficiently move excess liquidity to the areas of greatest need. In addition, they provide the wherewithal to help credit unions manage risk, and are uniquely positioned to facilitate participation lending. Operational efficiencies and cost considerations prohibit many credit unions from obtaining these services directly from the Federal Reserve.

Without corporates, many credit unions would be largely dependent on more than one bank or bank-affiliated institution for these services, which would no doubt add significant additional costs and due diligence burdens to credit unions' operations, which would ultimately be passed on to members in the form of lower dividends or higher loan rates. We are reminded of the processing relationship (i.e., item processing, shared branching, and ATMs) that California credit unions had with Security Pacific Bank several years ago. When Security Pacific was merged with Bank of America, that relationship was severed by the bank over a six month period, which would have lead to widespread dislocation and service collapse for California credit unions if WesCorp had not stepped in to pick up the item processing business and been instrumental in creating the business plan for Financial Service Centers Cooperatives (FSCC). Corporates have long maintained a necessary and trusted relationship with credit unions. Therefore, we strongly disagree with any action which would substantially alter the fundamental role and functions of the current corporate system.

Key Areas of Disagreement

Our disagreement with the ANPR includes NCUA's contemplation to establish separate charters for payment system services and investments, as well as a return to defined fields of membership. We believe such a move would be anti-competitive and would hamstring the viability of the corporate system, likely leading to future problems requiring intervention by NCUA and/or natural person credit unions. Furthermore, not every corporate offers a full array of services (e.g., item-processing for imaged items). Restricting corporate usage to geographic fields of membership would unfairly and unsafely restrict credit unions from accessing critical corporate services. Along the same lines, the Leagues feel that a requirement that an "outside director" be from entirely outside the credit union industry would be potentially damaging, and could serve to weaken the unique nature and philosophy of credit unions (and, frankly, we believe that such a requirement would not have prevented current circumstances).

Areas Where Improvements are Needed

While the Leagues staunchly support the continuation of the corporate system, we feel there is room for greater efficiencies, more effective risk management in the system, and governance enhancements.

<u>Greater Efficiencies</u>. We believe that corporate consolidation would be beneficial to the system, and that NCUA should be more open, responsive, and supportive of such consolidation by removing unreasonable impediments and/or resistance to corporate credit union mergers. We realize that each tier of the corporate network takes its own share of income, adds another layer of cost, each has its own capital requirements, all of which reduces efficiency and effectiveness.

<u>More Effective Risk Management</u>. Recent events indicate that corporates require a larger capital cushion, a greater diversification of investment to include more restrictions on concentration risk, and more—or at least better—risk management tools. In addition, to provide an even more robust "firewall" between corporate credit union risk and natural person credit union safety, NCUA might consider the creation of a separate insurance fund or separate insurance "system" for corporate credit unions in the future. As the Federal Reserve and Treasury contemplate measures for reducing systemic risk, it will be important to recognize the systemically important role the corporate system plays in the nation's "financial plumbing." Ultimately, 90 million credit union members rely on the corporate system to provide trading, payments, clearing, and settlement services for their local credit unions. NCUA's aim should be to assure that the credit union system as a whole is better able to withstand future shocks.

<u>Enhanced Governance</u>. Finally, the Leagues are of the opinion that term limits for directors would be reasonable, as would minimum standards for experience, knowledge, and training.

To summarize: the Leagues believe that while the corporate system is in need of some key adjustments, it is not broken. External factors are what caused the current crisis, not the corporate system structure. Going forward, our credit unions would like to be reassured that NCUA will maintain an ongoing evaluation as to the possible need to continue the corporate deposit guarantee past 2010, and that the Agency is prepared to address the concurrent maturities of CU SIP investments."

Eagle Community Credit Union thanks the NCUA Board for the opportunity to provide our views, concerns, and recommendations on the Board's actions.

Sincerely,

Bill Birnie
President/CEO
Eagle Community Credit Union